

Commonwealth of Virginia
General Fund Preliminary (Unaudited)
Annual Report

For the Fiscal Year Ended June 30, 2003
Presented on a Budgetary (Cash) Basis



David A. Von Moll
Comptroller
August 15, 2003



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COMMONWEALTH of VIRGINIA

DAVID A. VON MOLL, CPA
COMPTROLLER

Office of the Comptroller

P. O. BOX 1971
RICHMOND, VIRGINIA 23218-1971

August 15, 2003

The Honorable Mark R. Warner
Governor
Commonwealth of Virginia
State Capitol
Richmond, Virginia 23219

Dear Governor Warner:

In compliance with the provisions of Section 2.2-813 of the *Code of Virginia*, I hereby submit my preliminary annual report on the financial condition of the General Fund of the Commonwealth for the fiscal year ended June 30, 2003.

The Commonwealth ended fiscal year 2003 with a total fund balance in the General Fund of \$557.2 million measured on the cash basis of activity. This is a decrease of \$75.8 million, or 12 percent, from last year's ending fund balance of \$632.9 million. Planned (budgeted) decreases in General Fund balance for this year were \$326.0 million. The first graph on page 9 shows a comparison of the General Fund balance for the last five years.

The decrease in fund balance resulted primarily from budgeted spending from the Revenue Stabilization reserve of \$247 million, which was partially offset by revenues and net transfers exceeding the official estimate by \$55.2 million and agencies not expending all of their fiscal year 2003 appropriations.

Revenue Stabilization Fund

The Revenue Stabilization Fund has principal and interest on deposit of \$247.5 million reserved as a part of General Fund equity. In fiscal year 2003 no deposit other than interest earnings was required for the Revenue Stabilization Fund, however, a transfer of \$247,481,034 was made from the Revenue Stabilization Fund to the General Fund as required by Section 1-84 item 278 Chapter 1042, 2003 Acts of Assembly.

The Revenue Stabilization Fund is routinely segregated from the General Fund but Virginia law directs that the Revenue Stabilization Fund be included as a component of the General Fund for financial reporting purposes. Therefore, it is included here both as a cash asset and as a reserved component of fund balance. The Revenue Stabilization Fund can be used only for constitutionally authorized purposes. A deposit based on fiscal year 2003 revenues is not required.

Amounts Available for Reappropriation

Section 4-1.06a.1. of Chapter 1042, 2003 Acts of Assembly, requires reappropriation of 2003 fiscal year unexpended appropriations for Legislative and Judicial Departments, as well as independent Agencies. Additionally, this Section of the Act gives the Governor authority to reappropriate unexpended Executive Department appropriations. Section 4-1.06.a.2 gives the Governor authority to withhold reappropriations if funds are not available.

Based on an analysis by the Department of Planning and Budget of unexpended appropriations at June 30, 2003, \$134.5 million will be considered for mandatory reappropriation in fiscal year 2004 for operations and \$20.2 million will be considered for discretionary reappropriation in fiscal year 2004 for operations. Additional reappropriation amounts include \$24.4 million for capital outlay project needs and \$5.0 million for natural disaster sum sufficient amounts. Additionally, \$20.4 million is designated as available balances to meet the requirements of Chapter 1042, \$11.4 million for the Lottery Proceeds Fund and \$7.9 million for the Water Quality Fund. Further, the Department of Planning and Budget has identified planned disbursements of \$23.6 million to the Transportation Trust Fund. As of June 30, 2003, sufficient cash is not available to designate these entire amounts.

Virginia Water Quality Improvement Fund

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. The Fund was established to provide Water Quality Improvement Grants to various entities to assist in pollution prevention and reduction. The Fund shall consist of amounts appropriated by the General Assembly. Unless otherwise specified by the general appropriation act, these appropriations shall consist of ten percent of revenues collected in excess of the official estimate and ten percent of any unreserved fund balance not required for reappropriation. In prior years, the amounts that represent ten percent of the excess revenue collections and ten percent of the unreserved fund balance not required for reappropriation have been designated. For the year ended June 30, 2003, \$6.0 and \$1.9 million that represent ten percent of the excess revenue collections and ten percent of the unreserved fund balance not required for reappropriation, respectively, have been designated. Upon appropriation by the General Assembly, \$7.9 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund.

Appropriation Act Transfers

A \$10 million transfer from the Department of Motor Vehicles' (DMV) operating fund to the General Fund was made pursuant to Chapter 1042, 2003 Acts of Assembly. DMV did not have the full \$10 million in non-general fund cash available to make the required transfer. A \$6 million treasury loan was made from available non-general fund cash balances to DMV in accordance with the provisions of Section 4-3.02 of Chapter 1042 to partially fund this transfer obligation. The effect of this transaction on the accompanying Balance Sheet has been eliminated by reducing cash and transfers in balances by \$6 million. Repayment of the DMV non-general fund treasury loan will be completed during fiscal year 2004.

Basis of Presentation

This preliminary annual report is comprised of budgetary (cash) basis financial statements that present the financial condition, results of operations, and changes in fund balance of the Commonwealth's General Fund. The notes to the financial statements are an important and integral part of the statements.

This preliminary report is presented on an unaudited basis. In preparing this report, we relied upon the internal accounting controls of the Commonwealth that are designed to provide management with reasonable, but not absolute, assurances that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and are properly recorded to permit the preparation of financial statements.

Final Report and Award

The final Annual Report of the Comptroller, due on December 15, 2003, will include certain accruals and other information required for conformance with generally accepted accounting principles. It will be audited and will include any material adjustments recommended by the Auditor of Public Accounts.

We are proud to report that the Comprehensive Annual Financial Report for the year ended June 30, 2002, was awarded the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA). This is the seventeenth consecutive year that Virginia's Annual Report has received this award. In addition, Virginia received a companion award from the GFOA for its fiscal year 2002 Popular Report, entitled *Virginia Financial Perspective*. This is the eighth consecutive year that Virginia's Popular Report has received this award.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'D. A. Von Moll', with a stylized flourish at the end.

David A. Von Moll

Enclosure



SUMMARY OF GENERAL FUND ACTIVITY

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Commonwealth of Virginia
Preliminary Balance Sheet
General Fund - Budgetary (Cash) Basis (Unaudited)
June 30, 2003
(Dollars in Thousands)

Assets

Cash, Cash Equivalents, and Investments	\$ 558,118	
Cash and Travel Advances	<u>1,148</u>	
Total Assets		<u>\$ 559,266</u>

Liabilities and Fund Equity

Liabilities:

Deposits Pending Distribution	<u>2,104</u>	
Total Liabilities		\$ 2,104

Fund Equity:

Reserved Fund Balance:

Revenue Stabilization Reserve Fund (Note 7)	247,481	
Payroll Reserve for July 1, 2003 Payroll	<u>65,684</u>	
Total Reserved Fund Balance		313,165

Unreserved Fund Balance:

Designated:

Amount Required for Reappropriation of 2003 Unexpended Balances

Mandatory Reappropriations	134,470
Discretionary Reappropriations	16,772
Capital Outlay	24,463
Amount Required by Ch. 1042, 2003 Acts of Assembly	20,429
Amount for Lottery Proceeds Fund	11,411
Virginia Water Quality Improvement Fund - Part A (Note 9)	6,043
Virginia Water Quality Improvement Fund - Part B (Note 9)	1,864
Natural Disaster Sum Sufficient	4,982
Accelerated Sales Tax for Transportation Trust Fund	<u>23,563</u>

Total Designated Fund Balance 243,997

Undesignated Fund Balance -

Total Unreserved Fund Balance 243,997

Total Fund Equity 557,162

Total Liabilities and Fund Balance \$ 559,266

The accompanying notes are an integral part of this statement.

Commonwealth of Virginia
Preliminary Statement of Revenues, Expenditures,
and Changes in Fund Balance
General Fund - Budgetary (Cash) Basis (Unaudited)
For the Fiscal Years Ended June 30, 1999 through June 30, 2003
(Dollars in Thousands)

	Year Ended				
	June 30, 2003	June 30, 2002	June 30, 2001	June 30, 2000	June 30, 1999
Revenues:					
Taxes:					
Individual and Fiduciary Income	\$ 6,775,746	\$ 6,710,772	\$ 7,226,309	\$ 6,828,906	\$ 6,087,851
Sales and Use (Note 3)	2,335,958	2,429,845	2,272,954	2,201,533	2,065,265
Corporation Income	343,319	290,215	363,757	565,909	420,421
Public Service Corporations	91,247	77,152	93,427	104,197	111,949
Premiums of Insurance Companies	333,004	292,702	268,060	251,074	244,910
Other Taxes	573,445	487,826	434,332	438,616	450,656
Total Taxes	10,452,719	10,288,512	10,658,839	10,390,235	9,381,052
Rights and Privileges	63,216	37,997	36,928	34,098	34,623
Sales of Property and Commodities	1,019	281	66	1,146	2,955
Assessments and Receipts for Support of Special Services	383	445	399	170	323
Institutional Revenue	7,896	9,194	7,888	9,142	8,353
Interest, Dividends, and Rents	105,700	138,121	171,177	150,545	139,824
Fines, Forfeitures, Court Fees, Penalties, and Escheats	178,487	152,801	134,162	127,280	128,945
Receipts from Cities, Counties, and Towns	9,117	9,060	8,805	9,368	10,097
Private Donations, Gifts and Contracts	7	-	-	5	2
Tobacco Master Settlement	60,012	59,846	51,276	66,938	-
Other	109,200	41,215	80,350	24,717	10,019
Total Revenues (Note 2)	10,987,756	10,737,472	11,149,890	10,813,644	9,716,193
Expenditures:					
General Government	1,362,222	1,345,368	1,069,409	809,485	591,531
Education	5,441,934	5,542,589	4,188,331	3,921,500	3,713,657
Transportation	36	16,002	29,703	232	47
Resources and Economic Development	206,743	251,856	241,704	226,280	213,466
Individual and Family Services	2,769,780	2,550,020	2,488,152	2,333,410	2,082,840
Administration of Justice	1,867,835	1,910,280	1,939,881	1,780,235	1,658,837
Capital Outlay	19,752	119,046	36,714	40,076	32,557
Total Expenditures	11,668,302	11,735,161	9,993,894	9,111,218	8,292,935
Revenues Over (Under) Expenditures	(680,546)	(997,689)	1,155,996	1,702,426	1,423,258
Other Financing Sources (Uses):					
Transfers:					
Operating Transfers Mandated by Appropriation Act (Note 4)	-	-	-	-	396,453
Operating Transfers In	987,805	820,466	525,101	452,636	5,003
Operating Transfers In From Component Units (Note 5)	-	-	2,660	1,940	37
Operating Transfers Out	(383,066)	(383,915)	(623,677)	(324,743)	(344,328)
Operating Transfers Out To Component Units (Note 5)	-	-	(1,721,304)	(1,576,558)	(1,325,031)
Total Other Financing Sources (Uses)	604,739	436,551	(1,817,220)	(1,446,725)	(1,267,866)
Revenues and Other Sources Over (Under) Expenditures and Other Uses	(75,807)	(561,138)	(661,224)	255,701	155,392
Fund Balance, July 1					
Reserved	562,965	993,154	745,488	616,589	473,722
Unreserved	70,004	200,953	1,109,843	983,041	970,516
Fund Balance, July 1	632,969	1,194,107	1,855,331	1,599,630	1,444,238
Fund Balance, June 30					
Reserved	313,165	562,965	993,154	745,488	616,589
Unreserved	243,997	70,004	200,953	1,109,843	983,041
Fund Balance, June 30	\$ 557,162	\$ 632,969	\$ 1,194,107	\$ 1,855,331	\$ 1,599,630

The accompanying notes are an integral part of this statement.

Commonwealth of Virginia
Preliminary Statement of Revenues, Expenditures,
and Changes in Fund Balance - Budget and Actual
General Fund - Budgetary (Cash) Basis (Unaudited)
For the Fiscal Year Ended June 30, 2003
(Dollars in Thousands)

	General Fund			Final Budget/ Actual Variance Favorable (Unfavorable)
	Original Budget	Final Budget	Actual	
Revenues:				
Taxes:				
Individual and Fiduciary Income	\$ 7,341,700	\$ 6,798,900	\$ 6,775,746	\$ (23,154)
Sales and Use (Note 3)	2,373,000	2,342,600	2,335,958	(6,642)
Corporation Income	298,900	301,200	343,319	42,119
Public Service Corporations	98,500	86,000	91,247	5,247
Premiums of Insurance Companies	298,000	311,600	333,004	21,404
Other Taxes	467,000	523,200	573,445	50,245
Rights and Privileges	50,400	64,900	63,216	(1,684)
Sales of Property and Commodities	10,000	4,000	1,019	(2,981)
Assessments and Receipts for Support of Special Services	300	400	383	(17)
Institutional Revenue	8,900	9,200	7,896	(1,304)
Interest, Dividends, and Rents	45,500	72,300	105,700	33,400
Fines, Forfeitures, Court Fees, Penalties, and Escheats	165,300	179,800	178,487	(1,313)
Receipts from Cities, Counties, and Towns	9,200	9,200	9,117	(83)
Private Donations, Gifts and Contracts	-	-	7	7
Tobacco Master Settlement	59,100	60,500	60,012	(488)
Other	114,999	144,896	109,200	(35,696)
Total Revenues (Note 2)	<u>11,340,799</u>	<u>10,908,696</u>	<u>10,987,756</u>	<u>79,060</u>
Expenditures:				
Current:				
General Government	1,396,003	1,405,465	1,362,222	43,243
Education	5,580,506	5,464,597	5,441,934	22,663
Transportation	140,654	50,040	36	50,004
Resources and Economic Development	249,930	221,007	206,743	14,264
Individual and Family Services	2,730,616	2,775,305	2,769,780	5,525
Administration of Justice	2,007,378	1,895,238	1,867,835	27,403
Capital Outlay	25,845	43,714	19,752	23,962
Total Expenditures	<u>12,130,932</u>	<u>11,855,366</u>	<u>11,668,302</u>	<u>187,064</u>
Revenues Over (Under) Expenditures	<u>(790,133)</u>	<u>(946,670)</u>	<u>(680,546)</u>	<u>266,124</u>
Other Financing Sources (Uses):				
Transfers:				
Operating Transfers In	820,226	983,311	987,805	4,494
Operating Transfers Out	(228,036)	(362,694)	(383,066)	(20,372)
Total Other Financing Sources (Uses)	<u>592,190</u>	<u>620,617</u>	<u>604,739</u>	<u>(15,878)</u>
Revenues and Other Sources Over (Under)				
Expenditures and Other Uses	(197,943)	(326,053)	(75,807)	250,246
Fund Balance, July 1	<u>632,969</u>	<u>632,969</u>	<u>632,969</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 435,026</u>	<u>\$ 306,916</u>	<u>\$ 557,162</u>	<u>\$ 250,246</u>

The accompanying notes are an integral part of this statement.

Commonwealth of Virginia
Preliminary Comparison of Sum-Sufficient Final Budget Appropriations
with Actual Expenditures
General Fund - Budgetary (Cash) Basis (Unaudited)
For the Fiscal Year Ended June 30, 2003
(Dollars in Thousands)

	<u>Final Budget Appropriations</u>	<u>Actual Expenditures</u>	<u>Amount Under Budget</u>
Enactment of Laws	\$ 27,972	\$ 23,680	\$ 4,292
Financial Assistance to Localities -- From Sale of Alcoholic Beverages and Other Distributions	41,350	41,350	-
Financial Assistance for Special State Revenue Sharing -- From Sales Tax and Lottery Proceeds	948,202	940,152	8,050
Cash Management Improvement Act Payment to the Federal Government	410	410	-
	<hr/>	<hr/>	<hr/>
Totals	<u>\$ 1,017,934</u>	<u>\$ 1,005,592</u>	<u>\$ 12,342</u>

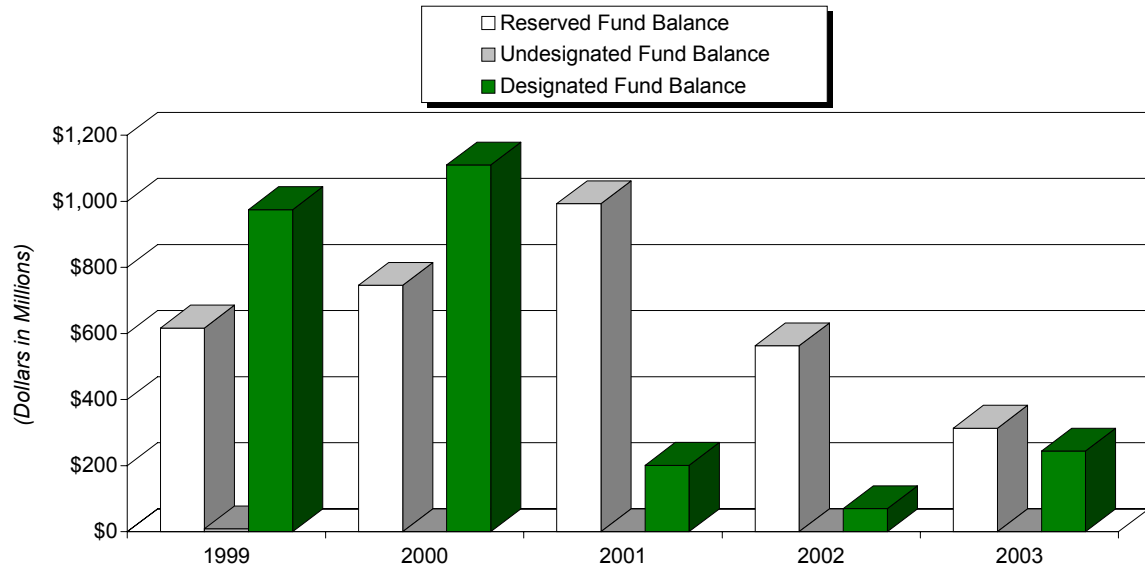


GENERAL FUND GRAPHICS

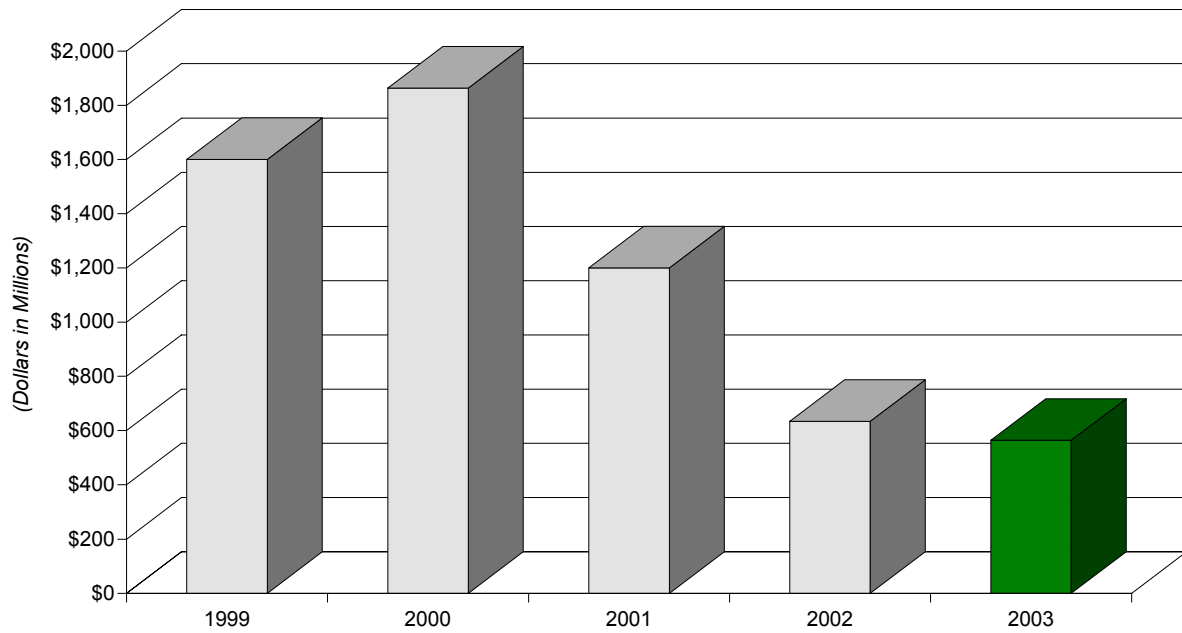
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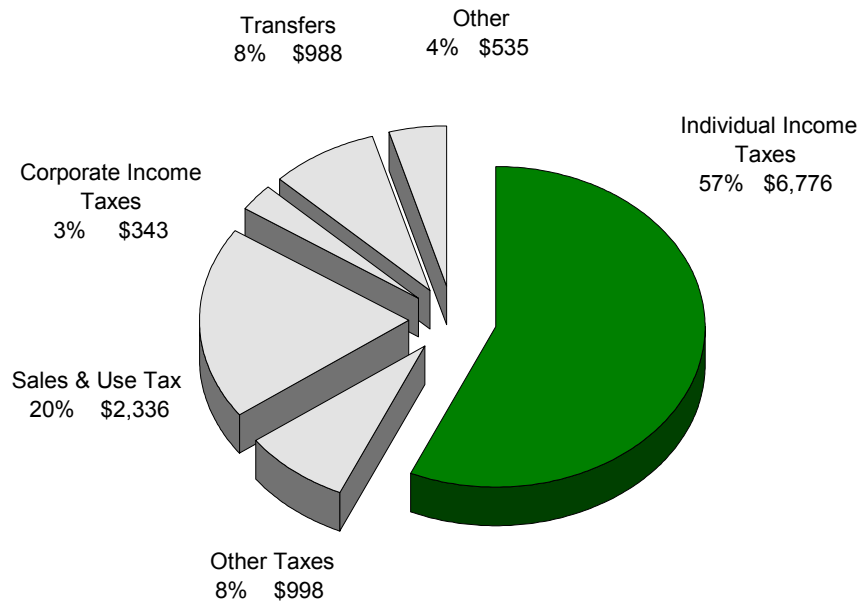
**General Fund
Fund Balance
Fiscal Years 1999-2003**



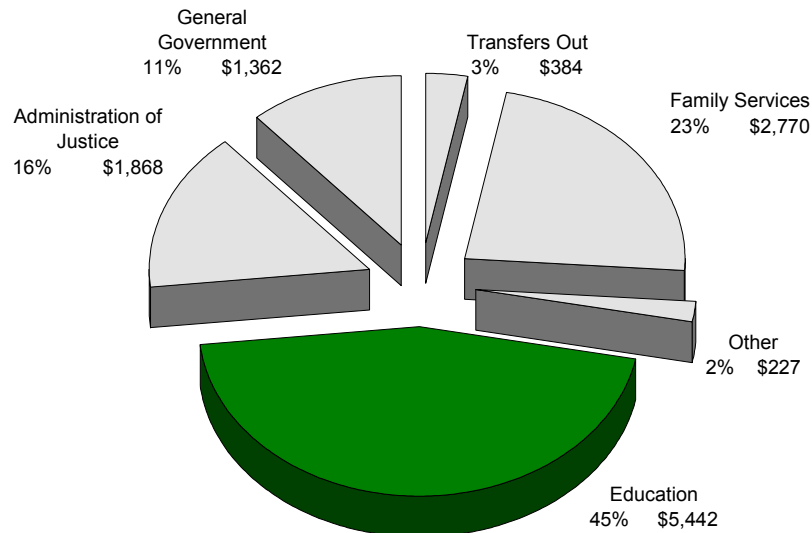
**General Fund
Cash, Cash Equivalents, and Investments
Fiscal Years 1999-2003**



**General Fund
Revenues by Revenue Class and Other Sources
Fiscal Year 2003
(Dollars in Millions)**

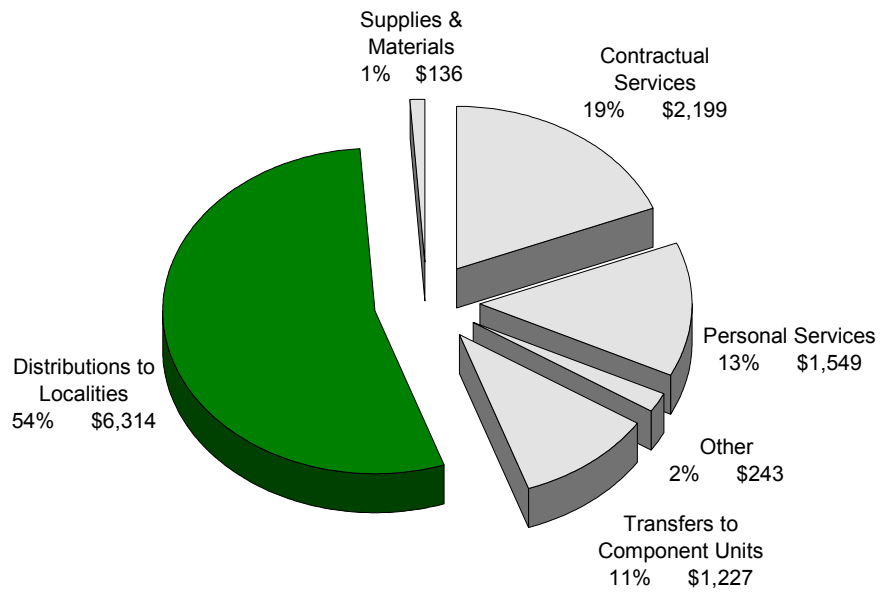


**General Fund
Expenditures by Function and Other Uses
Fiscal Year 2003
(Dollars in Millions)**

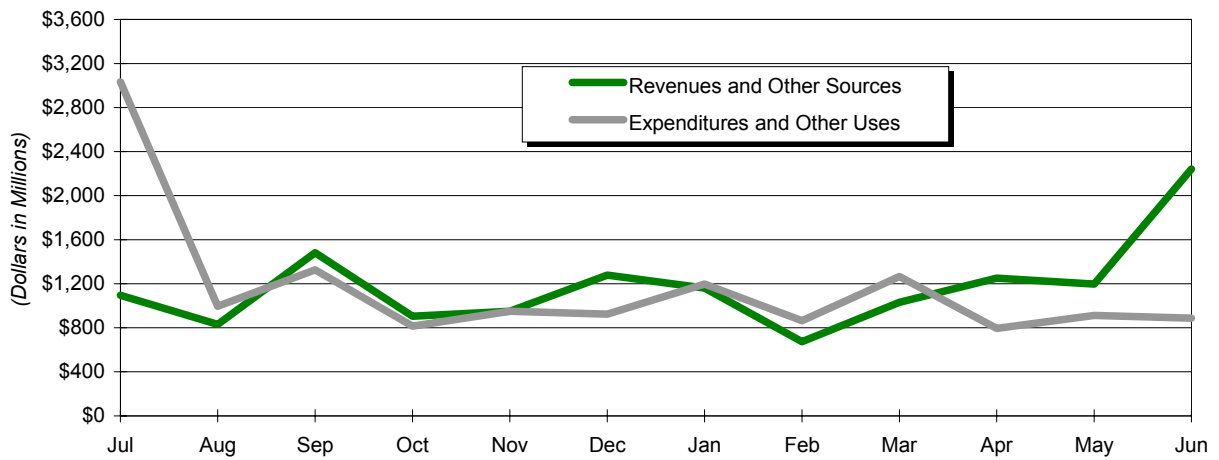


Note: General Government expenditures include \$856.7 million paid to localities pursuant to the Personal Property Tax Relief Act of 1998. This represents 63 percent of the General Government expenditures.

**General Fund
Expenditures by Object
Fiscal Year 2003
(Dollars in Millions)**



**General Fund
Revenues and Other Sources and
Expenditures and Other Uses by Month
Fiscal Year 2003**



Note: July expenditures include \$1.311 billion in payments to Higher Education.



GENERAL FUND NOTES

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COMMONWEALTH OF VIRGINIA

NOTES TO PRELIMINARY FINANCIAL STATEMENTS

JUNE 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying General Fund financial statements of the Commonwealth of Virginia have been prepared on a budgetary (cash) basis of accounting. Revenues and expenditures are recorded at the time cash is actually received or disbursed according to the provisions of the Appropriation Act; therefore, no accruals of revenues or expenditures have been included.

The General Fund includes transactions related to cash received and used for those services traditionally provided by a state government, which are not accounted for in other funds. It is a governmental fund and therefore its focus is on the measurement of financial position and related changes thereto, rather than on income determination. No other funds are presented in this report.

All funds will be presented using the appropriate bases of accounting as defined by generally accepted accounting principles in the Annual Report of the Comptroller, to be issued December 15, 2003.

B. Budget

Budgetary amounts shown in the financial statements represent Chapter 899, Acts of Assembly (original) and Chapter 1042, Acts of Assembly (final), both as adjusted for executive and other administrative actions. The Commonwealth's budget is prepared principally on a cash basis and represents appropriations as authorized by the General Assembly. The Governor, as required by the *Code of Virginia*, submits to the General Assembly a State budget composed of all proposed expenditures, estimated revenues and borrowings for a biennium.

The budget is prepared on a biennial basis; however, the budget of the General Fund contains separate appropriations for each year within the biennial budget, as approved by the General Assembly and signed into law by the Governor. For management control purposes, the budget is controlled at the program level. The Director of the Department of Planning and Budget may transfer an appropriation within a State agency or from one State agency to another, provided that total fund appropriations, as contained within the budget, are not exceeded. Increases in General Fund appropriations must be approved by the General Assembly.

2. ANALYSIS OF GENERAL FUND REVENUE

The Department of Accounts produces a monthly General Fund Statement of Revenue Collections, Estimates, and Transfers. The following analysis relates components of the Preliminary General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual with the monthly revenue report for June 30, 2003.

<i>(Dollars in Thousands)</i>	Preliminary Financial Statements	Monthly Statement of Revenue	Variance
Total Final Budgeted Revenue	\$ 10,908,696	\$ 10,806,600	\$ 102,096 (a)
(a) Appropriation Act transfers included in budgeted revenue on the Preliminary Financial Statements		101,618	
Other transfers/items included in budgeted revenue on the Preliminary Financial Statements		478	
		<u>\$ 10,908,696</u>	
Total Actual Revenue	\$ 10,987,756	\$ 10,867,149	\$ 120,607 (b)
(b) Reversal of prior year reclass of Non-sufficient Fund Checks not reflected on the Revenue Report		\$ 1,355	
Interest on the Revenue Stabilization Fund not reported in the Revenue Report		22,586	
Appropriation Act transfers recorded as revenue on the Preliminary Financial Statements		96,271	
Other transfers recorded as revenue on the Preliminary Financial Statements		2,062	
Personal Property Tax Relief Act - Refund of Prior Year Disbursements not included in the Revenue Report		137	
Interest on Lottery Proceeds Fund not reported in the Revenue Report		41	
Non-sufficient Fund Checks & Other items reclassified as a reduction in revenue for financial reporting purposes		(1,845)	
		<u>\$ 10,987,756</u>	

3. ACCELERATED SALES TAX COLLECTIONS

Pursuant to section 58.1-615 *Code of Virginia* as amended by section 4-12 of Chapter 1042, 2003 Acts of Assembly, the Commonwealth collected \$162.7 million in accelerated sales and use taxes in June 2003. This portion of the \$2.3 billion sales and use tax collections recorded as fiscal year 2003 revenues was accelerated from revenues that would otherwise have been collected in July 2003 and recorded as fiscal year 2004 revenues in next year's cash basis financial statements. Section 4-12 of Chapter 1042, 2003 Acts of Assembly retains this acceleration through fiscal year 2005, with a gradual phase-out during fiscal years 2006-2012. Subsequent to June 30, 2003, \$23.6 million is designated for transfer to the Transportation Trust Fund.

4. APPROPRIATION ACT TRANSFERS

Prior to fiscal year ended June 30, 2000, Appropriation Act transfers were reported on a separate line item. For fiscal year ended June 30, 2003, Appropriation Act transfers are \$1,267.3 million. The following analysis shows where Appropriation Act transfers are reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

<i>(Dollars in Thousands)</i>	Appropriation Act Transfers
Revenue - Other	\$ 96,271
Transfers In	954,447 (c)
Transfers Out	(36,877)
Total Appropriation Act Transfers	<u>\$ 1,013,841 (d)</u>

(c) Includes ABC transfers of approximately \$54.0 million and excludes DMV transfer of \$6.0 million discussed in Note 6.

(d) Excludes \$247,481,034 of transfers from the Revenue Stabilization Fund made during the year as required by Item 278.10B of Chapter 1042, 2003 Acts of Assembly. The Revenue Stabilization Fund is considered part of the General Fund in the Preliminary Financial Statements, and thus, this transfer is not reflected in the accompanying financial statements.

5. OPERATING TRANSFERS IN FROM/OUT TO COMPONENT UNITS

Prior to fiscal year ended June 30, 2002, operating transfers in from and out to component units were reported on a separate line item. Pursuant to the Governmental Accounting Standards Board, Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, which was effective beginning in fiscal year 2002, these line items have been eliminated. Accordingly, these amounts have been reclassified as revenues or expenditures in the accompanying Statement of Revenues, Expenditures, and Changes in Fund Balance.

6. NONGENERAL FUND TREASURY LOAN

As discussed in the Transmittal Letter, a \$10 million transfer from the Department of Motor Vehicles' (DMV) operating fund to the General Fund was made pursuant to Chapter 1042, 2003 Acts of Assembly. DMV did not have the full \$10 million in non-general fund cash available to make the required transfer. A \$6 million treasury loan was made from available non-general fund cash balances to DMV in accordance with the provisions of Section 4-3.02 of Chapter 1042 to partially fund this transfer obligation. Repayment of the DMV non-general fund treasury loan will be completed during fiscal year 2004.

Although the treasury loan will be repaid with non-general funds, in substance \$6 million of the \$10 million transfer into the General Fund is supported only by cash received from the treasury loan. Accordingly, the effects of this transaction have been eliminated in the accompanying statements by reducing the cash and transfers in balances by \$6 million.

7. REVENUE STABILIZATION FUND

In accordance with Article X, Section 8 of the *Constitution of Virginia*, the amount estimated as required for deposit to the Revenue Stabilization Fund must be appropriated for that purpose by the General Assembly. During fiscal year 2003, no deposit was required; however, a withdrawal of

\$247.5 million was made. A deposit is not required based on FY 2003 revenue collections; however, this is pending certification by the Auditor of Public Accounts.

The Revenue Stabilization Fund has principal and interest on deposit of \$247.5 million reserved as a part of General Fund equity. The amount on deposit cannot exceed ten percent of the Commonwealth's average annual tax revenues derived from taxes on income and retail sales for the preceding three fiscal years. The maximum amount allowed is \$963.0 million and \$958.3 million for FY 2003 and FY 2004, respectively. The FY 2004 maximum is pending certification by the Auditor of Public Accounts.

8. UNEXPENDED LOTTERY PROCEEDS

In accordance with Article X, Section 7-A of the *Constitution of Virginia*, lottery proceeds must be distributed to the Commonwealth's localities and the school divisions to be expended for the purposes of public education. The lottery proceeds for FY 2003 totaled \$374.2 million and the FY 2002 unexpended proceeds totaled \$25.2 million. During FY 2003, the Commonwealth appropriated and expended \$401.7 million. Since unexpended lottery proceeds do not exceed the appropriation for lottery profits, a reservation is not required.

9. VIRGINIA WATER QUALITY IMPROVEMENT FUND

Section 10.1-2128 of the *Code of Virginia* established the Virginia Water Quality Improvement Fund. The Fund was established to provide Water Quality Improvement Grants to various entities to assist in pollution prevention and reduction. The Fund shall consist of amounts appropriated by the General Assembly. Unless otherwise specified by the general appropriation act, these appropriations shall consist of ten percent of revenues collected in excess of the official estimate and ten percent of any unreserved fund balance not required for reappropriation. For the year ended June 30, 2003, \$6.0 and \$1.9 million that represent ten percent of the excess revenue collections and ten percent of the unreserved fund balance not required for reappropriation, respectively, have been designated. Upon appropriation by the General Assembly, \$7.9 million will be transferred from the General Fund to the Virginia Water Quality Improvement Fund.

10. DESIGNATED FUND BALANCE

The amounts designated on the Balance Sheet represent tentative plans for future utilization of current financial resources. For FY 2003, the Department of Planning and Budget determined total designations are \$247.4 million. This amount consists of \$134.5 million for mandatory reappropriation in fiscal year 2004 for operations, \$20.2 million for discretionary reappropriation in fiscal year 2004 for operations, \$24.4 million for capital outlay projects needs and \$5.0 million for natural disaster sum sufficient amounts. Additionally, \$20.4 million is designated as available balances to meet the requirements of Chapter 1042, \$11.4 million for the Lottery Proceeds Fund and \$7.9 million for the Water Quality Fund. Further, the Department of Planning and Budget has identified planned disbursements of \$23.6 million to the Transportation Trust Fund. The Balance Sheet reflects \$244.0 million designated for the above purposes. Sufficient cash is not available to designate \$3.4 million of these designated amounts. Further, as there is no portion of fund balance not reserved or designated, there is no designation for nonrecurring expenditures as required by Section 2.2-1514 of the *Code of Virginia*.

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GLOSSARY

[illegible]

BALANCE SHEET

1. **Cash, Cash Equivalents, and Investments** - All cash, cash equivalents, and investments are maintained by the Treasurer of Virginia. Cash includes demand deposits, time deposits, and certificates of deposit. Cash equivalents are investments with an original maturity of three months or less. Short-term investments held are stated at cost, which approximates market value.
2. **Cash and Travel Advances** - Funds advanced to agencies to make immediate cash payments for authorized purposes. Also included are funds advanced to agency employees to cover expenses incurred while traveling on State business.
3. **Deposits Pending Distribution** - This represents miscellaneous amounts held by several agencies in suspense accounts pending distribution.
4. **Reserved Fund Balance** - Items are reserved to indicate that a particular portion of fund balance is not available to fund operations at the end of the fiscal year.
5. **Designated Fund Balance** - Consists of designations established to reflect tentative plans for future utilization of current financial resources. Designated Fund Balance represents:
 - **Amount Required for Reappropriation of 2003 Unexpended Balances, Mandatory Reappropriations, Discretionary Reappropriations, and Capital Outlay** – This portion of fund balance represents the fiscal year 2003 unexpended appropriations which the Department of Planning and Budget anticipates reappropriating in the next fiscal year.
 - **Amount Required by Chapter 1042, 2003 Acts of Assembly** – This portion of fund balance represents the amount that must be carried forward to the following year to balance the biennial budget.
 - **Amount for Lottery Proceeds Fund** – This portion of fund balance represents the amount planned to be transferred to the Lottery Proceeds Fund subsequent to June 30.
 - **Virginia Water Quality Improvement Fund** – This portion of fund balance represents amounts to be transferred to the Virginia Water Quality Improvement Fund upon appropriation by the General Assembly.
 - **Natural Disaster Sum Sufficient** – This portion of fund balance represents the estimated costs of responding to and recovering from damage caused by hurricanes, blizzards, severe storms/tornadoes, and floods.
 - **Accelerated Sales Tax for Transportation Trust Fund** – This portion of fund balance represents the accelerated sales tax collections planned to be transferred to the Transportation Trust Fund subsequent to June 30.
6. **Undesignated Fund Balance** - The amount of fund balance remaining from operations of the current and prior years, net of amounts established as reserved and designated. As of June 30, 2003, there is no unreserved undesignated fund balance remaining.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Revenues:

7. **Taxes** - Charges of money imposed by the Commonwealth on persons or property for public purposes.
8. **Rights and Privileges** - Registration fees, licenses, and permits. Examples include domestic and foreign corporate registration fees and marriage licenses.
9. **Sales of Property and Commodities** - Revenue collected from sales of Commonwealth assets and goods. Examples include sales of State publications.

10. **Assessments and Receipts for Support of Special Services** - Revenues collected for services provided by the Commonwealth's agencies. An example is audit services provided to cities, counties, and towns.
11. **Institutional Revenue** - Revenue generated primarily from sales by the Departments of Corrections and Mental Health, Mental Retardation and Substance Abuse Services. Examples include the sale of farm and dairy products.
12. **Interest, Dividends, and Rent** - Interest earnings and rental income. Examples include interest on Commonwealth bank accounts and investments and interest on delinquent taxes. Interest allocated to various other funds is not included here.
13. **Fines, Forfeitures, Court Fees, Penalties, and Escheats** - Fines, penalties, etc., primarily collected by the Department of Taxation and the court system. Examples include court processing fees and penalties for nonpayment of taxes.
14. **Receipts from Cities, Counties, and Towns** - Revenue collected from city and county treasurers representing miscellaneous fees and allowances of local law enforcement officials.
15. **Private Donations, Gifts, and Contracts** - This amount represents donations and grants from individuals and private companies to State programs.
16. **Tobacco Master Settlement** - This amount represents the revenue generated from the Tobacco Master Settlement Agreement with tobacco companies.
17. **Other Revenue** - All other revenue collections that are not included in the above categories. Examples include refunds of expenditures and miscellaneous disbursements made in prior years, excess fees paid into the State Treasury, and recovery of Statewide indirect costs.

Expenditures:

18. **General Government** - Expenditures to support the general activities of the state, regional, and local levels of government. Examples include administrative and support services, general financial assistance to localities, information systems management and direction. Also included is tax relief reported as expenditures pursuant to the Personal Property Tax Relief Act (PPTRA) of 1998. The tax relief level was 12.5 percent, 27.5 percent, 47.5 percent, and 70.0 percent for tax years 1998 to 2002, respectively, and remained at 70 percent for 2003. The expenditures associated with this relief were \$181.3 million, \$322.1 million, \$604.1 million, \$826.2 million, and \$856.7 million for fiscal years 1999 to 2003, respectively.
19. **Education** - Expenditures to assist individuals in developing knowledge, skills, and cultural awareness. Examples include elementary and secondary education, instruction, supervision and assistance and higher education.
20. **Transportation** - Expenditures related to the movement of people, goods, and services and their regulation. Examples include ground, water and air transportation.
21. **Resources and Economic Development** - Expenditures to develop the economic base, including alternative natural resources and to regulate it with regard to varied public interests of the Commonwealth. Examples include resource management, economic development, promotion and improvement, as well as the regulation of professions and occupations.
22. **Individual and Family Services** - Expenditures to support the economic, social and physical well being of the individual and family. Included are disease research, prevention, and control, state health services and community health services.
23. **Administration of Justice** - Expenditures related to civil and criminal justice, including apprehension, trial, punishment, and rehabilitation of law violators. Examples include crime deterrence, suppression and control, adjudication, confinement and community custody.

24. **Capital Outlay** - Construction and preparation of Commonwealth assets.

Other Financing Sources (Uses):

25. **Operating Transfers In** - This balance reflects transfers in from other nongeneral funds.

26. **Operating Transfers Out** - The balance represents transfers from the General Fund to other nongeneral funds.

If you have any questions or comments regarding information contained in this report, please contact us at

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